

**LOUISIANA CITIZENS PROPERTY
INSURANCE CORPORATION**

Financial Statements and
Independent Auditor's Report

December 31, 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/4/09

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Independent Auditor's Report

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We have audited the accompanying Statement of Net Assets of the business-type activities and the major funds of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of December 31, 2007, and were engaged to audit the related Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows for the year then ended, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an *opinion on these financial statements based on our audit.*

Except as indicated in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to perform sufficient audit procedures in order to render an opinion on the Statement of Net Assets of the Corporation as of December 31, 2006. Such Statement of Net Assets includes amounts which enter materially into the determination of the results of operations and cash flows for the year ended December 31, 2007. The management of the Corporation also was unable to provide written representations for the entire period under audit as required by generally accepted auditing standards.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended December 31, 2007.

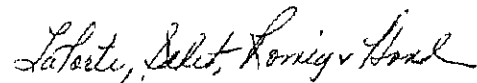
In our opinion, the Statement of Net Assets referred to above presents fairly, in all material respects, the respective financial position of the business-type activities and the major funds of the Louisiana Citizens Property Insurance Corporation as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected not to present the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. The accompanying Schedule of Governing Board is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit the information and express no opinion on it.



A Professional Accounting Corporation

December 9, 2008

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LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Net Assets
December 31, 2007

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,931,402	\$ 154,886,250	\$ 158,817,652
Cash Restricted to Satisfy Restricted Liabilities	179,815	2,942,114	3,121,929
Interest and Dividends Receivables	-	720,969	720,969
Premium Receivables and Agents' Balances, Net	1,710,634	19,296,336	21,006,970
Emergency Assessments Receivables, Net	-	16,540,214	16,540,214
Reinsurance Receivables	840,562	16,594,421	17,434,983
Deferred Policy Acquisition Costs	908,929	12,691,889	13,600,818
Due From Other Funds	-	34,912,219	34,912,219
Other Current Assets	-	1,274	1,274
Total Current Assets	<u>7,571,342</u>	<u>258,585,686</u>	<u>266,157,028</u>
Non-Current Assets			
Restricted Investments with Bond Trustee	-	332,330,432	332,330,432
Bond Issuance Costs, Net	-	22,670,642	22,670,642
Capital Assets, Net	-	7,833,351	7,833,351
Total Non-Current Assets	<u>-</u>	<u>362,834,425</u>	<u>362,834,425</u>
Total Assets	<u>7,571,342</u>	<u>621,420,111</u>	<u>628,991,453</u>
Liabilities and Net Assets			
Current Liabilities			
Unpaid Losses	30,002,983	288,856,863	318,859,846
Unpaid Loss Adjustment Expenses	5,699,432	46,172,203	51,871,635
Advance Premiums	155,269	3,145,236	3,300,505
Unearned Premiums	9,089,292	126,918,889	136,008,181
Unearned Tax Exempt Surcharge	272,679	3,807,567	4,080,246
Servicing Fees Payable	3,102,520	26,716,980	29,819,500
Accrued Expenses, Taxes, Licenses and Fees	969,238	4,187,769	5,157,007
Restricted Amounts Due to Bond Trustee for			
Emergency Assessments Collected	179,815	2,942,114	3,121,929
Accrued Bond Interest Payable	-	3,357,168	3,357,168
Commissions Payable to Agents	438,984	4,141,781	4,580,765
Other Current Liabilities	16,878	839,562	856,440
Due to Other Funds	34,912,219	-	34,912,219
Total Current Liabilities	<u>84,839,309</u>	<u>511,086,132</u>	<u>595,925,441</u>
Non-Current Liabilities			
Special Assessment Revenue Bonds	-	1,006,677,012	1,006,677,012
Total Liabilities	<u>84,839,309</u>	<u>1,517,763,144</u>	<u>1,602,602,453</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	-	7,833,351	7,833,351
Restricted for Debt Service	-	34,810,651	34,810,651
Unrestricted	(77,267,967)	(938,987,035)	(1,016,255,002)
Total Net Assets	<u>\$ (77,267,967)</u>	<u>\$ (896,343,033)</u>	<u>\$ (973,611,000)</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2007

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Operating Revenues			
Premiums Earned	\$ 12,629,541	\$ 143,636,012	\$ 156,265,553
Net Investment Income	252,636	7,221,494	7,474,130
Finance and Service Charges	247,527	5,300,472	5,547,999
Other Revenues	1,887	115,811	117,698
Total Operating Revenues	13,131,591	156,273,789	169,405,380
Operating Expenses			
Losses Incurred	5,008,472	63,650,243	68,658,715
Loss Adjustment Expenses	926,002	12,019,978	12,945,980
Underwriting Expenses	3,436,533	40,657,499	44,094,032
Total Operating Expenses	9,371,007	116,327,720	125,698,727
Operating Income	3,760,584	39,946,069	43,706,653
Non-Operating Revenues (Expenses)			
Interest Expense	-	(44,778,018)	(44,778,018)
Net Investment Income	-	16,134,139	16,134,139
Emergency Assessment Income	-	78,012,089	78,012,089
Market Equalization Charges	6,742,986	13,575,196	20,318,182
Excess Regular Assessment Recoupments	3,046,693	10,747,130	13,793,823
Tax Exempt Surcharge	483,756	6,092,424	6,576,180
Total Non-Operating Revenues (Expenses)	10,273,435	79,782,960	90,056,395
Changes in Net Assets	14,034,019	119,729,029	133,763,048
Net Assets, Beginning of Year	(91,301,986)	(1,016,072,062)	(1,107,374,048)
Net Assets, End of Year	\$ (77,267,967)	\$ (896,343,033)	\$ (973,611,000)

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2007

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Cash Flows from Operating Activities			
Premiums Collected	\$ 14,721,280	\$ 183,795,670	\$ 198,516,950
Net Investment Income Received	252,636	7,221,494	7,474,130
Finance and Service Charges	247,527	5,300,472	5,547,999
Other Receipts	1,887	115,811	117,698
Losses Paid	(33,077,213)	(197,999,348)	(231,076,561)
Loss Adjustment Expenses Paid	(3,706,114)	(24,215,183)	(27,921,297)
Underwriting Expenses Paid	(963,495)	(22,105,912)	(23,069,407)
Net Cash Used in Operating Activities	(22,523,492)	(47,886,996)	(70,410,488)
Cash Flows from Non-Capital Financing Activities			
Interfund Borrowing	14,219,114	(14,219,114)	-
Emergency Assessments Received	-	61,471,875	61,471,875
Regular Assessments Received	5,119,496	13,453,973	18,573,469
Market Equalization Charges Received	6,742,986	13,575,196	20,318,182
Tax Exempt Surcharge Received	553,113	7,422,463	7,975,576
Interest Paid on Debt	-	(45,029,293)	(45,029,293)
Other Financing Fees	-	(1,471,312)	(1,471,312)
Net Cash Provided by Non-Capital Financing Activities	26,634,709	35,203,788	61,838,497
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	-	(140,040)	(140,040)
Net Cash Used in Capital and Related Financing Activities	-	(140,040)	(140,040)
Cash Flows from Investing Activities			
Amounts Received from Restricted Investments with Bond Trustee	-	99,286,047	99,286,047
Net Investment Income Received	-	16,654,584	16,654,584
Net Cash Provided by Investing Activities	-	115,940,631	115,940,631
Net Increase in Cash and Cash Equivalents	4,111,217	103,117,383	107,228,600
Cash and Cash Equivalents, Beginning of Year	-	54,710,981	54,710,981
Cash and Cash Equivalents, End of Year	<u>\$ 4,111,217</u>	<u>\$ 157,828,364</u>	<u>\$ 161,939,581</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2007

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Reconciliation of Operating Income to Net Cash Used in Operating Activities			
Operating Income	\$ 3,760,584	\$ 39,946,069	\$ 43,706,653
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities			
Depreciation Expense	-	2,708,612	2,708,612
Decrease (Increase) in:			
Premiums Receivables and Agents' Balances	(406,587)	(6,998,189)	(7,404,776)
State Taxes Receivable	-	390,540	390,540
Reinsurance Receivables	(538,934)	(10,664,066)	(11,203,000)
Deferred Policy Acquisition Costs	(231,190)	(4,433,462)	(4,664,652)
Other Current Assets	-	98,949	98,949
Increase (Decrease) in:			
Deficit in Cash	(811,549)	-	(811,549)
Unpaid Losses and Loss Adjustment Expenses	(29,498,370)	(135,880,244)	(165,378,614)
Advance Premiums	6,613	(118,889)	(112,276)
Unearned Premiums	2,311,898	44,334,622	46,646,520
Servicing Fees Payable	1,999,973	15,850,093	17,850,066
Accrued Taxes, Licenses, Fees and Other Expenses	698,992	2,213,003	2,911,995
Restricted Amounts Due to Bond Trustee	179,815	2,942,114	3,121,929
Commissions Payable to Agents	54,057	922,471	976,528
Other Current Liabilities	(48,794)	801,381	752,587
Net Cash Used in Operating Activities	<u>\$ (22,523,492)</u>	<u>\$ (47,886,996)</u>	<u>\$ (70,410,488)</u>
Supplemental Disclosure:			
Cash and cash equivalents, end of year consist of:			
Unrestricted Operating Cash and Cash Equivalents	\$ 3,931,402	\$ 154,886,250	\$ 158,817,652
Restricted Cash to Satisfy Restricted Liabilities	179,815	2,942,114	3,121,929
Total Cash and Cash Equivalents, End of Year	<u>\$ 4,111,217</u>	<u>\$ 157,828,364</u>	<u>\$ 161,939,581</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana Citizens Property Insurance Corporation (the Corporation) was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:1430, to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable, to procure insurance through the voluntary market. The Corporation operates residual market insurance programs, throughout the State of Louisiana (the State), designated as the Coastal Plan (succeeded the Louisiana Insurance Underwriting Plan) and the Fair Access to Insurance Requirements Plan (FAIR Plan) (succeeded the Louisiana Joint Reinsurance Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway.

The Corporation began operations on January 1, 2004, with its headquarters and corporate offices located in Metairie, Louisiana. It is governed by a board of directors consisting of 15 members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, The Chairman of the House Committee on Insurance, The Chairman of the Senate Committee on Insurance or their designees, nine representatives appointed by the Governor, and two representatives appointed by the Commissioner of the Department of Insurance. During 2007, one board position was vacant.

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered a component unit of the State of Louisiana because the relationship with the state is such that the exclusion of the Corporation's information from the State's financial statements would cause the State's financial statements to be incomplete or misleading. The accompanying financial statements present information only as to the transactions and programs of the Louisiana Citizens Property Insurance Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation reports the following major proprietary funds:

The *Coastal Plan* accounts for all activities of the Coastal Plan. The Coastal Plan provides insurance on property located in the State of Louisiana between the Gulf of Mexico and the Intracoastal Waterway.

The *FAIR Plan* accounts for all activities of the FAIR Plan. The FAIR Plan provides insurance to areas of the State of Louisiana above the Intracoastal Waterway.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Generally, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Corporation has elected not to follow subsequent private-sector guidance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The determination of the unpaid losses and unpaid loss adjustment expense amounts are particularly sensitive estimates subject to change.

Cash, Cash Equivalents and Investments

The Corporation has defined cash and cash equivalents to include cash on hand and demand deposits. Under State Law, the Corporation may invest in United States Bonds, treasury notes or certificates. The Corporation also may invest in direct repurchase agreements of any federal bank. The collateral for the agreement can only include securities as described above. Investments are stated at their fair value which approximates cost.

Receivables

Premium receivables and agents' balances are reported net of amounts estimated to be uncollectible. The amounts estimated to be uncollectible as of December 31, 2007, were \$2,425,159 and are reported as a reduction in premiums earned in the accompanying financial statements.

Fair Value of Financial Instruments

The carrying value of cash, receivables and accounts payable approximates fair value due to the short maturity of these instruments and obligations.

Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to or from other funds in the accompanying financial statements.

Reinsurance

In the normal course of business, the Corporation seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy.

Recognition of Premium Revenues

Revenues from written premiums are recorded as unearned premiums and recognized when earned, on a straight-line basis, over the contract period. The tax exempt surcharge assessed on all written premiums is recognized consistent with the premium recognition policy.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Unpaid Claims and Claim Adjustment Expenses

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. The reserves for losses and loss adjustment expenses are reported net of estimated recoveries from reinsurance of approximately \$13,885,669 and \$1,328,238, respectively.

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring insurance that are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies to which they relate. Amortization in 2007 was \$21,941,330 and is reported within underwriting expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Capital Assets

All acquisitions of property and equipment in excess of \$5,000 whose useful lives extend beyond a one year period are capitalized. Capital assets consist of electronic data processing and communication equipment. They are recorded at cost and depreciated using the straight-line method over the following useful lives:

Electronic data processing equipment	5 Years
Communication and office equipment	10 Years

Depreciation expense for 2007 totaled \$2,708,612.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation, but which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Defining Operating Revenues and Expenses

The Corporation distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for insurance policies and the costs of providing such policies. All other revenues and expenses are reported as non-operating.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

Pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service, the Corporation constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax.

Net Assets

The net assets of the Corporation are divided into three components:

1. Invested in capital assets, net of related debt—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
2. Restricted net assets—consist of net assets that are restricted by the Corporation's creditors (through debt covenants) or by the state enabling legislation (through restrictions on uses of revenues).
3. Unrestricted—all other net assets are reported in this category.

Note 2. Stewardship, Compliance and Accountability

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of the Corporation in financial institutions must be secured with acceptable collateral valued at the lower of cost or market or par. As of December 31, 2007, the Corporation's cash and cash equivalents were entirely insured or collateralized with securities held by its agent in the Corporation's name.

Deficiency in Net Assets

The Corporation reported a deficiency in net assets of \$973,611,000 at December 31, 2007, resulting from losses on insured property caused by Hurricanes Katrina and Rita during 2005. The Corporation plans to eliminate the deficit through emergency assessments on affected insurance companies and policy holders.

Note 3. Cash, Cash Equivalents and Investments

The Corporation's cash and cash equivalents consist of the following at December 31, 2007:

	Carrying Amount	Bank Balance
Demand Deposits	\$ 161,939,581	\$ 198,955,261
Total	\$ 161,939,581	\$ 198,955,261

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of December 31, 2007, \$198,855,261 of the Corporation's bank balance was exposed to custodial credit risk. \$100,000 of deposits were secured by federal deposit insurance coverage, which was not exposed to custodial credit risk. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

At December 31, 2007, the Corporation has investments of \$332,330,432 which are detailed as follows:

Credit Risk

Investment	Rating	Percentage
Mutual Fund - Treasury Obligations	AAAm	73%
Repurchase Agreement with a Federal Bank, Securities Held by Bank	AAA	15%
Repurchase Agreement with a Federal Bank, Securities Held by Bank	Varies	12%

The Corporation does not have a formal investment policy regarding investment credit risk.

Concentration of Credit Risk

The Corporation has no formal limit on the amount the Corporation may invest in any one issuer. More than 5% of the Corporation's investments are in Mutual Fund - Treasury Obligations and the two repurchase agreements with federal banks.

Interest Rate Risk

Investment	Maturity	Fair Value
Mutual Fund - Treasury Obligations	None	\$ 242,667,268
Repurchase Agreement with a Federal Bank, Securities Held by Bank	Varies	\$ 48,847,317
Repurchase Agreement with a Federal Bank, Securities Held by Bank	6/1/2026	\$ 40,815,847

The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 4. Assessments Receivable and Revenue

LRS 22:1430 states that any insurer who engages in writing property insurance within Louisiana shall become an assessable insurer in the Coastal Plan and FAIR Plan. In the event that the Governing Board of the Corporation determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Corporation may levy regular assessments against assessable insurers for each affected plan in order to help offset such deficit. Furthermore, assessable insurers are permitted to recoup all regular assessments from their policyholders by applying a surcharge to all policies. Any amounts recouped by the insurers in excess of amounts assessed are required to be forwarded to the Corporation.

During 2005, the Governing Board levied a 2005 Regular Assessment in an amount that equaled 10% for the FAIR Plan and 5% for the Coastal Plan, of the aggregate statewide direct written premium for the subject lines of business for the calendar year 2004. At December 31, 2007, there were no additional amounts owed to the Corporation under the 2005 assessment, but excess recoupments received totaled \$13,793,823. There were no Regular Assessments levied during 2007.

Upon a determination by the governing board that a deficit in a plan exceeds the amount that will be recovered through regular assessments, the governing board is authorized to levy, after verification by the Department of Insurance, emergency assessments, for as many years as necessary to cover the deficit. The board determined that the 2005 Plan Year Deficit exceeded the amounts levied under the 2005 Regular Assessment and has levied an Emergency Assessment beginning in 2007 of 3.6% of written premium and has approved a levy of 5.0% for 2008 and 2009. The assessments are collected by the insurers and remitted to the Corporation's bond trustee quarterly. The total of 2007 Emergency Assessments levied amounted to \$78,012,089 of which \$16,540,214 remained outstanding as of December 31, 2007.

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Increases	Decreases	Balance December 31, 2007
Capital Assets Being Depreciated				
Electronic Data Processing Equipment	\$ 13,131,133	\$ 97,950	\$ -	\$ 13,229,083
Communication and Office Equipment	569,496	42,090	-	611,586
Total Capital Assets Being Depreciated	13,700,629	140,040	-	13,840,669
Less Accumulated Depreciation for:				
Electronic Data Processing Equipment	(3,265,485)	(2,645,817)	-	(5,911,302)
Communication and Office Equipment	(33,221)	(62,795)	-	(96,016)
Total Accumulated Depreciation	(3,298,706)	(2,708,612)	-	(6,007,318)
Total Capital Assets Being Depreciated, Net	\$ 10,401,923	\$ (2,568,572)	\$ -	\$ 7,833,351

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 6. Risk Management

The Corporation has a geographic exposure to catastrophe losses in the areas where its policy holders' insured property resides. These catastrophes can be caused by various events, including hurricanes, windstorms, hail, and flooding, and the incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and severe flooding may produce significant damage in large, heavily populated areas. The Corporation generally seeks to reduce its exposure to catastrophes through the purchase of catastrophe reinsurance.

Note 7. Reinsurance Receivable and Concentrations of Credit Risk

Reinsurance contracts do not relieve the Corporation from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Corporation; consequently, allowances are established for amounts deemed uncollectible. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Corporation limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers on an automatic basis under general reinsurance contracts known as "treaties." The Corporation acquired catastrophe reinsurance coverage of \$400,000,000 per occurrence and \$800,000,000 in the aggregate for combined losses in excess of \$100,000,000 for the policy year beginning June 2007 and ending May 2008. The Corporation will bear a prorated risk of loss of 10% and the reinsurance carrier bears a prorated risk of loss of 90% of the reinsured losses. The Corporation would bear 100% of the risk for all losses in excess of the policy limits.

The effect of reinsurance on premiums written and earned is as follows:

	<i>Written</i>	<i>Earned</i>
Direct	\$ 265,857,107	\$ 216,785,428
Assumed	-	-
Ceded	(60,519,875)	(60,519,875)
Net	<u>\$ 205,337,232</u>	<u>\$ 156,265,553</u>

The amount of recoveries pertaining to reinsurance contracts that were deducted from losses incurred and loss adjustment expenses during 2007 were approximately \$15,045,431 and \$1,448,303, respectively.

Note 8. Restricted Net Assets

The Statement of Net Assets includes \$34,810,651 of net assets restricted for the repayment of the Special Assessment Revenue Bonds, which has been restricted by enabling legislation. The amounts equal the excess of unspent emergency assessments collected to satisfy the debt service requirements for the year.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 9. Special Assessment Revenue Bonds

On April 11, 2006, the Corporation offered for public sale, \$678,205,000 in Series 2006B and \$300,000,000 in Series 2006C Special Assessment Revenue Bonds. The bonds were issued to eliminate the 2005 Plan Year Deficit resulting from Hurricanes Katrina and Rita. The bonds and interest will be payable from Emergency Assessment revenues during 2007 and subsequent years. The Series 2006B bear variable interest rates from 4% - 5.25% per annum and Series 2006C Bonds will bear interest at an Auction Mode Rate resulting from auction procedures. The Series 2006B were sold at a premium of \$33,828,701, which is being amortized using the interest rate method and reported as a component of interest expense in the financial statements.

Bond activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Increases	Decreases	Balance December 31, 2007
Special Assessment Revenue Bonds				
Series 2006B	\$ 678,205,000	\$ -	\$ -	\$ 678,205,000
Series 2006C	300,000,000	-	-	300,000,000
Total Outstanding Principal on Bonds	978,205,000			978,205,000
Bond Premium on Series 2006B	31,582,348	-	3,110,336	28,472,012
Total Special Assessment Revenue Bonds	\$ 1,009,787,348	\$ -	\$ 3,110,336	\$ 1,006,677,012

Debt service requirements at December 31, 2007, was as follows:

Year Ending December 31,	Series 2006B Revenue Bonds		Series 2006C Revenue Bonds		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ -	\$ 33,776,012	\$ -	\$ 11,253,281	\$ -	\$ 45,029,293
2009	31,800,000	33,004,987	-	11,253,281	31,800,000	44,258,268
2010	34,360,000	31,363,825	-	11,253,281	34,360,000	42,617,106
2011	35,080,000	29,677,813	-	11,253,281	35,080,000	40,931,094
2012	37,735,000	27,927,663	-	11,253,281	37,735,000	39,180,944
2013 to 2017	217,035,000	108,400,544	-	56,266,405	217,035,000	164,666,949
2018 to 2022	277,220,000	46,777,126	-	56,266,405	277,220,000	103,043,531
2023 to 2027	44,975,000	1,072,263	300,000,000	34,293,152	344,975,000	35,365,415
Total	\$ 678,205,000	\$ 312,000,233	\$ 300,000,000	\$ 203,092,367	\$ 978,205,000	\$ 515,092,600

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 10. Related Party Transactions

The Corporation entered into an agreement for services with the Property Insurance Association of Louisiana (PIAL) effective January 1, 2004, whereby PIAL performs for the Corporation on a cost and expense reimbursement basis without profit, commission or fees to PIAL, such services as may be required to operate and administer the Corporation's business activities. Until approximately June 2007, the Corporation and PIAL were governed by common board members and corporate officers. Operating expenses billed to the Corporation by PIAL for 2007 amounted to \$9,744,125. At December 31, 2007, unpaid amounts due to the Property Insurance Association of Louisiana totaled \$806,145. This agreement was terminated by the Corporation's management as of April 1, 2008.

Note 11. Commitments

The Corporation entered into Service Provider Agreements with Bankers Insurance Group, First Premium Insurance Group, Inc., and MacNeill Group, Inc. to provide underwriting, policy issuance and administration and claims processing services beginning October 1, 2005, and ending September 30, 2008. All service provider contracts have been extended until March 31, 2009. Policy administration services are performed for a fixed fee per application/policy and claims administration services are performed for a percentage of net loss paid, subject to a minimum and maximum dollar fee.

Note 12. Going Concern

Due to the catastrophic effects of Hurricanes Katrina and Rita, the Corporation maintains a deficit in net assets of \$77,267,967 for the Coastal Plan and \$896,343,033 for the Fair Plan at December 31, 2007. Louisiana Revised Statute 22:1430.16(E) states that in the event that a deficit is not remedied by the regular assessment described in Note 4, the Corporation may declare an emergency assessment. The amount of the emergency assessment in any year must not exceed either 10% of the remaining deficit or 10% of the aggregate statewide direct written premium for subject lines of business. Management began the process to alleviate the deficit by issuing revenue bonds in April 2006 which will be retired using annual emergency assessments beginning January 1, 2007. Revenues from the emergency assessments will be recognized as they are levied.

Note 13. Contingencies

Pending Litigation

The Corporation is a defendant in various individual and/or alleged class action suits arising from allegations made for failing to timely and/or properly adjust and pay claims on insured property, many of which were related to damages during Hurricanes Katrina and Rita. The Corporation denies the allegations made in these suits and has vigorously defended itself. At December 31, 2007, the Corporation's counsel has estimated that the potential exposure would not exceed amounts provided for within the loss and loss adjustment expense reserves of the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to Financial Statements

Note 13. Contingencies (Continued)

Pending Litigation (Continued)

During October 2008, the Corporation was presented with a proposed settlement of the class actions claims filed. The Corporation's Board of Governors has reviewed the proposed settlement and believes it will bring an end to three years of costly litigation. The maximum possible exposure of the settlement is \$35,000,000, including payment of the plaintiffs' counsel fees and other costs. The Corporation believes the actual exposure to be less than the maximum. The Civil District Court in New Orleans has scheduled a fairness hearing on the settlement in December 2008. Because the outcome of the settlement is uncertain, no liability has been recorded.

Note 14. Rate Contingency

The Corporation is required by RS 22:1430.12(A)(1) to set rates which exceed rates charged among the ten insurers with the greatest total direct written premium in each parish for that line of business in the preceding year by at least 10%. These rates are required to be set by the governing board, adjusted annually, and to be actuarially certified. State Law further requires the Corporation to charge the higher of the actuarially justified rates or 110% of the rates charged by the top ten insurers.

On November 12, 2008, the Louisiana Legislative Auditor released his audit report on the financial statements of the Louisiana Department of Insurance (DOI) for the fiscal year ending June 30, 2007, which can be found at the Legislative Auditor's web site at www.la.la.gov. That audit contained findings suggesting that the DOI made improper adjustments to the initial residential rate filings (excluding wind and hail-only coverages) for the period covering from November 1, 2006 through May 31, 2007. The finding indicates that the Corporation submitted their proposed rate increase based on data provided to them by the DOI. The DOI stated that they discovered errors in the initial data and therefore, did not approve the initial rate increase but reduced the increase to a lower rate.

Management is unable to determine the effects, if any, of this rate adjustment to their financial statements, nor can they determine compliance with the state statute as indicated in the Louisiana Legislative Auditor's reports.

SUPPLEMENTAL INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Governing Board
For the Year Ended December 31, 2007

<u>Board Member</u>	<u>Appointing Agency</u>	<u>Compensation</u>
James William Newton, Chairman	Office of the Commissioner of Insurance	\$ -0-
Jim Napper, General Counsel	Office of the State Treasurer	-0-
Rep. Karen Carter	Chairman of the House Committee on Insurance	-0-
Sen. Robert W. "Bob" Kostelka	Senate Committee on Insurance Designee	-0-
Jeff W. Albright	Independent Ins. Agents/Brokers of Louisiana	-0-
Ann Mettrailer	Louisiana Farm Bureau Mutual Ins. Co.	-0-
Ron E. Newson	State Farm Insurance Company	-0-
James Mike Ely	Property Casualty Ins Assoc. / Allstate Insurance Company	-0-
Joelle M. Lapeze	Hanover Insurance Company	-0-
John D. Milette	American Insurance Assoc. / St. Paul Travelers	-0-
Chester Lee Mallett	At-Large Governor Appointee	-0-
Leander Peter Henry	At-Large Governor Appointee	-0-
Michael W. Domingue	At-Large Governor Appointee	-0-
David Hal Stiel	Professional Insurance Agents of Louisiana	-0-
Vacant Position	Alliance of American Insurers	-0-



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We have audited the accompanying Statement of Net Assets of the business-type activities and the major funds of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of and for the year ended December 31, 2007, and were engaged to audit the related Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows for the year then ended, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not express an opinion on the results of operations and cash flows due to scope limitations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

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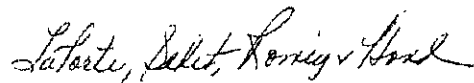
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control. We believe that the significant deficiencies described in the accompanying schedule of findings and responses listed as 2007-4 through 2007-8, to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Citizens Property Insurance Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Responses listed as 2007-1 through 2007-3 and 2007-9.

The Corporation's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Governors and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

December 9, 2008

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the Statement of Net Assets, but disclaims an opinion on the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows.
2. Material weaknesses are disclosed as findings 2007-4 through 2007-8.
3. Instances of non-compliance were disclosed as findings 2007-1 through 2007-3 and an other matter was disclosed as finding 2007-9.
4. There were no significant deficiencies, no findings, or non-compliance findings related to federal awards received by the Louisiana Citizens Property Insurance Corporation.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 1 Reporting Requirements

<i>Criteria:</i>	Louisiana Revised Statutes (LRS) 22:1430.14 and 22:1451 require quarterly and annual statutory statements to be filed with the Commissioner of Insurance for the Coastal Plan and the FAIR Plan. The annual statement is due March 1 st following the year end and quarterly reports are due prior to May 15 th , August 15 th and November 15 th . LRS 24:513 and the <i>Louisiana Governmental Audit Guide</i> require the annual audit to be completed and submitted to the Legislative Auditor within six months subsequent to the close of the entity's fiscal year end.
<i>Condition:</i>	The Louisiana Citizens Property Insurance Corporation's (the Corporation) required filings were submitted well after the due dates as described above. The annual filing to the Commissioner of Insurance for 2005, 2006 and 2007 have not yet been filed and are on extension until December 31, 2008.
<i>Cause and Effect:</i>	This condition was caused by the myriad of accounting problems that arose in the aftermath of Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations:</i>	None
<i>Management's Response:</i>	New management has worked diligently to rebuild the accounting data for the Coastal and the FAIR Plans. Management has set a timetable which will bring the Corporation into compliance with future filing requirements. According to that timetable, 2007 will be completed by December 2008.

2007 - 2 Policy Take Out Program

<i>Criteria:</i>	LRS 22:1430.23 requires, at least annually, the Corporation to offer its in-force policies for removal to the voluntary market. This is to encourage the ultimate depopulation of these residual market plans.
<i>Condition:</i>	The Corporation's first policy take out program began in 2008.
<i>Cause and Effect:</i>	This condition was caused by the high volatility in the insurance markets within the State and the significant reduction in the number of companies writing policies subsequent Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations:</i>	None
<i>Management's Response:</i>	New management has instituted the first program in 2008 and has developed procedures to ensure the program is continuous. The ultimate goal is the depopulation of the Corporation's premiums written and policies in force as well as to aid the public in obtaining affordable rates for their covered property. In June 2008, approximately 27,000 policies were depopulated. In December 2008, approximately 13,500 policies were depopulated.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 3 Advance of Public Funds

Criteria: As provided for in Article VII, Section 14 of the Louisiana State Constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Condition: A large portion of PIAL's operations were to provide management and administrative services to the Corporation and its customers. Since the administrative agreement provided for reimbursement of expenses incurred by PIAL on the Corporation's behalf, the Corporation made mid-month advances to PIAL to reduce the strains on their cash flow. Timely reconciliation of outstanding balances due to PIAL were not performed. When the Corporation hired its own CEO and CFO, separate from PAIL, reconciliations were performed and it was identified that in February 2007, the Corporation made advances which exceeded the total expenses incurred by PIAL on the Corporation's behalf during that period, causing an overpayment of funds of approximately \$340,000. The Corporation had continued to make payments to PIAL through March and April 2007, leading to a total excess advance of almost \$800,000. Once this was discovered, these amounts were corrected.

Cause and Effect: The governing board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.

Recommendations: None

Management's Response: Charges between PIAL and Citizens have been reconciled.

2007 - 4 Louisiana Plans Management System (LPMS)

Criteria: For proper controls over the premiums and claims cycles, the Corporation should have a policy management system that supplies relevant and accurate financial data to the general ledger system.

Condition: The Property Insurance Association of Louisiana (PIAL) contracted, on the Corporation's behalf, with a software vendor to develop and provide implementation, maintenance and support of the LPMS. LPMS was put into service on October 1, 2005, to process claims and manage policies. Management identified, subsequent to the end of the 2005 fiscal year, that the vendor had not completed many of the necessary functions within LPMS and that the data tables which feed the interface between LPMS and their accounting software were not being populated. Therefore, accounting transactions were either being recorded incorrectly or not at all. LPMS has also been unable to produce reliable statistics.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 4 Louisiana Plans Management System (LPMS) (Continued)

Cause and Effect: The cause appears to be errors made in the design and implementation of LPMS. The effect was a lack of controls over the premium and claims cycles. The system's failure to produce accurate or reliable financial information has had a significant impact on the Corporation's ability to produce accurate financial statements. The Corporation has incurred many subsequent costs for consultants, accountants and analysts to accumulate and correct financial data as well as additional costs to repair the LPMS system. Management has been able to retrieve accounting data through a software they call Data Mart to compile financial records.

Recommendations: Management should consider replacing LPMS or making changes so that it can be more effective.

Management's Response: Management has determined that the LPMS system should be replaced. A request for proposal (RFP) for a new system was released in July 2008. The new system will be an "off the shelf" software that has been proven to be successful at other property insurance companies.

2007 - 5 PIAL's Reimbursement Requests

Criteria: Effective January 1, 2004, a contract for management and administrative services between PIAL and the Corporation was approved by the board and the Office of State Purchasing for a period of one year with options to renew for subsequent years not to exceed five years. The agreement stated that PIAL would operate without profit on an expense reimbursement basis.

Condition: During our testing of the operating expense reimbursement requests from PIAL, we identified many of the expenses were based on an indirect cost allocation between the Corporation and two other entities. We could not determine how this allocation was determined and further identified inconsistencies in the application of the calculation. We further could not evidence approval of the indirect cost allocation rate by the Corporation's Governing Board or other senior management. Personnel expenses charged to the Corporation in the reimbursement requests were not supported by time or other details. We were unable to determine that they were for actual work related to the Corporation's operations.

Cause and Effect: The Governing Board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions.

Recommendations: We recommend all requests for reimbursement be accompanied by appropriate supporting documentation stating the business purpose for the expenditure and how it relates to the Corporation.

Management's Response: New management has instituted written policies and procedures to ensure that expenditures incurred by the Corporation are approved at an appropriate level of management and payments for services are segregated from the authorization functions.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 6 Bank Reconciliations

<i>Criteria:</i>	For internal controls to be effective and for material misstatements to be detected, bank reconciliations should be performed monthly in a timely manner.
<i>Condition:</i>	Bank accounts were not reconciled timely. The Corporation contracted with outside consultants to perform the reconciliations for 2005, 2006, and 2007, which were completed during 2008.
<i>Cause and Effect:</i>	Due to the accounting problems that arose in the aftermath of Hurricanes Katrina and Rita and because of the errors in the LPMS system, it was not possible to reconcile bank accounts. The effect was inadequate controls over disbursements and receipts of funds.
<i>Recommendations:</i>	The Corporation has assigned personnel to perform reconciliation functions under the supervision of senior personnel during 2008. We are aware that the reconciliations are currently being performed timely. Formal timelines have been established for the completion of the reconciliation and the review functions to ensure bank adjustments are recorded timely within the financial records to support management reports and financial statements.
<i>Management's Response:</i>	The bank reconciliations for 2005, 2006 and 2007 are now complete and the 2008 bank reconciliations are up to date. Bank reconciliation policies and procedures have been implemented.

2007 - 7 Premiums & Claims

<i>Criteria:</i>	Internal control procedures and objectives over the premium and claim cycles as listed within the AICPA's Accounting and Auditing Guide for Property & Liability Insurance Companies include: <ul style="list-style-type: none">• Input, output and data controls are maintained to ensure that all changes to the detail policy are processed properly.• Amounts included in commission calculations are reconciled to premiums written.• Policy endorsements and cancellations or other changes are approved; determinations of additional or return premiums are also reviewed.
<i>Condition:</i>	During the year ended December 31, 2007, it does not appear that the Corporation had in place a testing, balancing, and reconciliation function for the premium and claims cycles. Subsequent to year end, new management has established a testing function.
<i>Cause and Effect:</i>	The cause appears to be a lack of oversight by the Governing Board and possibly due to previous management's inadequate experience in the property insurance industry. As a result, the Corporation experienced difficulties in the premiums and claims processes.
<i>Recommendations:</i>	Management should institute a review of its internal controls over the premium and claims cycles and implement changes as considered necessary.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 7 Premiums & Claims (Continued)

*Management's
Response:*

New management has implemented many of the controls described above. Management has evaluated its current controls over the premium and claims cycles to ensure that errors are identified in a timely manner. Due to the volume of Katrina/Rita claims, the service providers were granted increased authority to settle claims. Now that the bulk of storm claims have been processed, the service provider limits have been reduced and compliance reviews and audits have been instituted. Copies of the recent compliance reviews has been provided to the external auditors.

2007 - 8 Employee Expense Reimbursements

Criteria:

To ensure expenditures reported on the Corporation's financial reports are for the activities of the Corporation, all employee expense reimbursement requests must contain appropriate supporting documentation and authorization.

Condition:

Invoices submitted by PIAL for reimbursement from the Corporation, selected for audit testing, contained items for their employees' expense reimbursement requests. In many instances, they did not contain sufficient supporting documentation with the request to determine the business nature of the expense or detail how these expenses related to Citizens' operations. Many expenses contained employee credit card statements which did not provide detail of items purchased.

Cause and Effect:

The cause appears to be a lack of oversight by the Governing Board over the authorization and review of the managing agent's requests for reimbursement. The effect was inadequate controls of cash disbursement functions.

Recommendations:

We recommend that the Corporation require adequate documentation to support expenses requested for reimbursement by PIAL.

*Management's
Response:*

We have developed and are using a specific form for employee expense reports that requires receipts for any expenses greater than \$25.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007 - 9 Rate Setting Procedures

Criteria: The Corporation is required by RS 22:1430.12(A)(1) to set rates which exceed rates charged among the ten insurers with the greatest total direct written premium in each parish for that line of business in the preceding year by at least 10%. These rates are required to be set by the governing board, adjusted annually, and to be actuarially certified. State Law further requires the Corporation to charge the higher of the actuarially justified rates or 110% of the rates charged by the top ten insurers.

Condition: The Louisiana Legislative Auditor has suggested in his performance audit report dated May 22, 2007 of the Corporation and as a result of an audit performed on the financial statements of the Louisiana Department of Insurance (DOI) dated November 12, 2008, that adjustments made to the Corporation's rate filing by the DOI may have caused its policyholders to be charged rates which did not comply with State Law for a period covering through May 31, 2007.

Cause and Effect: If such adjustments lowered the Corporation's rate to below the legislatively mandated levels, the Corporation could potentially be in violation of State Law.

Recommendations: We recommend that the Corporation review their rate setting procedures to ensure compliance with applicable State Laws.

Management's Response: Management believes their rate filings were accurate based on the market data which was available to them and that attempts were made to comply with any and all laws governing the rate setting process.

Other Comments

The Compliance Audit Division of the Louisiana Legislative Auditor performed compliance and performance audits of the Louisiana Citizens Property Insurance Corporation and issued various reports dated between May 22, 2007 and November 5, 2008. The Auditor has also performed a financial statement audit of the Department of Insurance for the year ended June 30, 2007, and has issued his report dated November 12, 2008, which include findings related to the insurance rates used by the Corporation. Copies of these reports can be requested from the Legislative Auditor's Office at 1600 North Third Street, P.O. Box 94397, Baton Rouge, LA 70804 or in the audit report section of their website at www.lila.la.gov.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2007

Section I – Internal Control and Compliance Material to the Financial Statements

2006 - 1 Reporting Requirements

Condition: The Corporation was not in compliance with State Laws and Regulations which require the annual audit be completed and submitted to the Legislative Auditor within six months of the close of the entity's fiscal year.

Status: This condition for 2006 was resolved in 2008. The 2006 annual audit report and financial statements have been finalized and submitted to the Legislative Auditor.

2006 - 2 Policy Take Out Program

Status: This condition has not been resolved. It has been repeated at finding **2007 - 2**. The Corporation's first policy take out program began in 2008.

2006 - 3 Board Minutes

Condition: The Corporation was unable to provide board minutes for meetings held within five months between the periods of June 1, 2006 and January 31, 2007, as well as no sub-committee minutes since inception. It appears that the entity is not in compliance with LRS 42:7.1 and 44:36 in the taking of minutes or the preservation of those public documents.

Status: This condition has been resolved.

2006 - 4 Louisiana Plans Management System (LPMS)

Status: This condition has not been resolved. It has been repeated at finding **2007 - 4**.

2006 - 5 Contract Review and Approval

Condition: The Corporation's approved Plan of Operations §6(A)(9) delegates the authority to the CEO to execute contracts with vendors up to \$15,000 or up to public contract laws not subject to bid requirements without first obtaining approval from the governing board. All contracts exceeding the limitation require board approval. We identified a contract executed between the Corporation and vendors by the CEO which exceeded the limitation that did not contain evidence of board authorization.

Status: This condition has been resolved.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2007

2006 - 6 Conflicts of Interest

Condition: There were conflicts of interest between the management of the Corporation and the management of their managing agent, the Property Insurance Association of Louisiana (PIAL). Predominately, all of the Corporation's operating expenses were incurred by and reimbursed to PIAL. PIAL provided all personnel including the Chief Executive Officer and the Chief Operating Officer, who held their positions with both entities. The entities also had common board members.

Status: This condition has been resolved. The Corporation began hiring separate officers in the Spring of 2007.

2006 - 7 PIAL's Contract Authorization & Reimbursement Requests

Condition: The Corporation was not in compliance with their contract for management and administrative services with PIAL. Four contracts with costs ranging between \$130,000 and \$6 million, were executed between PIAL and outside vendors on behalf of the Corporation containing no evidence of authorization from the Corporation's governing board.

Status: This condition has been partially resolved. It has been revised at finding **2007 - 5**. Contracts executed during 2007 were in the name of the Corporation and approved by the governing board.

2006 - 8 Supporting Documentation for PIAL Invoices

Condition: The Corporation was unable to provide sufficient supporting documentation supporting the operation expenses requested for reimbursement from PIAL.

Status: This condition has been resolved. The Corporation requires all requests for reimbursement to be accompanied by supporting documentation.

2006 - 9 Bank Reconciliations

Status: This condition had not been resolved by the end of 2007. It has been repeated at finding **2007 - 6**.

2006 - 10 Cash Disbursements

Condition: The Corporation's invoices did not contain evidence that management approved invoices prior to them being paid, nor were supporting documents cancelled after payment to prevent their re-use.

Status: This condition has been resolved. Invoices submitted for payment are required to have the appropriate approval prior to the disbursement of funds.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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2006 - 11 Stale Outstanding Checks

Condition: The outstanding check lists for the Coastal and FAIR Plan operating checking accounts contained checks dating from as early as January 2004. The Coastal Plan has approximately 190 checks totaling \$94,000 and the FAIR Plan has approximately 2,560 checks totaling \$3,684,000 listed which are older than one year.

Status: This condition has been resolved. The Corporation has a written escheat policy that requires an annual review of all outstanding checks with written notice to the payee and escheatment after five years per Louisiana Statute.

2006 - 12 Premiums & Claims

Status: This condition has been partially resolved. Part of the finding has been repeated at finding **2007 - 7**.

2006 - 13 Employee Expense Reimbursements

Status: This condition has not been resolved. It has been repeated at finding **2007 - 8**.

2006 - 14 Calculation of Nonadmitted Premium Receivables

Condition: The Corporation's current policy used to calculate the non-admitted portion of premiums receivable does not appear to comply with Statement of Statutory Accounting Principle (SSAP) No. 4, *Assets and Nonadmitted Assets*, and SSAP No. 6, *Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*. The Corporation's current policy is to calculate the admitted portion as an amount equal to all premium collections for the 90 days subsequent the reporting date without considering the amounts already reserved as unearned. This policy has also been adopted to estimate the allowance for uncollectible amounts in accordance with Generally Accepted Accounting Principles.

Status: This condition has been resolved. The Corporation has modified its policy to comply with Generally Accepted Accounting Principles and a permitted statutory accounting principle.

2006 - 15 Accounts Payable

Condition: The Corporation's accounting procedures do not require invoices to be entered into the computer system prior to the check run on which they will be paid. The accounts payable personnel keep a manual open invoice file for those awaiting payment.

Status: This condition has been resolved. The Corporation has changed the accounts payable process as recommended.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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2006 - 16 Internal Audit Function

Condition: The Corporation does not have an internal audit function.

Status: This condition has been resolved. Management is considering the recommendation to establish an internal audit function, but currently has implemented these processes throughout various divisions of the Corporation. Management has instituted review and approval functions within each department and has been performing performance reviews of its service providers.

2006 - 17 Accounting Policies and Procedures

Condition: The Corporation does not have an accounting policies and procedures manual. Due to the volume of transactions and complexities involved with this industry, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records.

Status: This condition has been resolved. The Corporation has begun the process of developing a formal accounting policies and procedures manual. Many procedures have been written, adopted and put in place by the Corporation.

Section II - Internal Control and Compliance Material to Federal Awards

Not Applicable

Section III - Management Letter

Not Applicable